THE AUSTRALIAN

# Ten reasons why Australian firms have stopped investing

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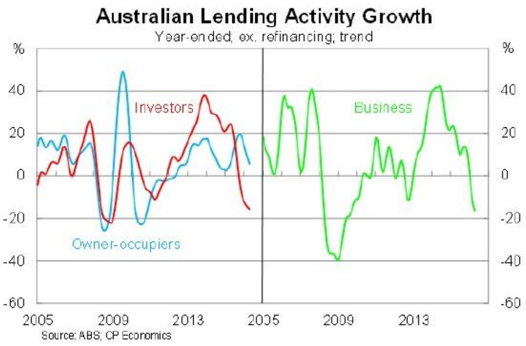
As Malcolm Turnbull and Bill Shorten talk up growth and jobs, out in the real world the business and investment community is doing the opposite--- they are cutting back on investment.

Today's graph below prepared by **CP Economics** shows that lending to both businesses and investors in Australia is in steep decline. And the business lending decline is almost entirely outside the mining industry because miners mostly obtained their funds in big chunks from overseas and represent only around 4 per cent of the total Australian bank lending.




So why are so many Australian enterprises going on a virtual capital strike and what are the long-term implications for the nation? And why is investment in dwellings declining despite lower interest rates?

I have picked out 10 reasons. They are not exhaustive and obviously readers will have different views. There is no particular significance in the order but I have started with government because its election time.

Here we go:

- Australian businesses understand that neither political party seems able to get off the drug of borrowing money to please voters via handouts. The current government is running up huge deficits and projecting future surpluses on the basis of optimistic commodity price assumptions. The Opposition wants to spend even more money. Neither party has the talent to slash duplication with the states, which would slash government deficits and improve services. The Canberra mess creates nervousness among businesses.
- Ultra-low interest rates are having a depressing effect on investment.

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Shareholders in large companies are pressing their directors to maximise dividend payments to make up for the low returns on interest bearing deposits. There is extreme pressure on boards to cut back investment to fund higher dividends.

- In the small business area banks want the security of the residential house in most loans. In decades gone by, banks lost their management ability to evaluate what businesses to lend to. Taking the house as security makes it so much easier. But that means if the business fails the owners lose everything. Spouses are becoming very reluctant to take that risk. Moreover, their house has increased in value so their wealth has increased. Why jeopardise it by expanding the business? Everyone knows someone who lost their house expanding a business.
- Australia overcame the worst of the mining slump by a massive increase in dwelling investment along with increased lending to purchasers of existing homes which caused Sydney and Melbourne property prices to skyrocket. Every day there is a new prediction of a glut in apartments and a housing price slump. This makes both investors/owner occupiers and business borrowers nervous.
- Banks have been told by APRA to cut back their investor housing loan growth rate. In addition they are being required to raise much more capital. Banks are therefore becoming more cautious and raising lending standards. This has had a big effect on housing investment but it has also affected companies.
- The incomes of consumers are being squeezed. Many self-funded retirees have been taken to the cleaners by the Reserve Bank (or are being forced to take greater risk) and overall non-government salaries are not rising. This means that competition for the consumer dollar is fierce so margins are under pressure. Fewer businesses feel like expanding because the profits may not be there to justify the expenditure.
- The squeeze on margins is severe in places like the food industry where many large companies have enterprise agreements with their work forces that make expansion uneconomic. These agreements decimated the motor industry and apply to many others. They worked when profit margins were much higher. They can be reversed but most large companies do not have the management skills to do it.
- The global situation does not instil confidence. China has huge debts and a restructuring of its economy will suppress growth. The US recovery is slower than had been hoped for. Europe is a mess. The days when the world was booming have gone.
- The world bond markets are virtually signalling that the current global malaise is going to be around for a long time. This compounds investor nervousness.
- The South Australian submarine project was an opportunity to kickstart manufacturing investment using new technologies but Australia went the other way and has chosen five years of design rather than an immediate injection of digital manufacturing investment.

All the above makes the fall in investment understandable but, given the pace of technological development, we are in grave danger of falling behind. If the Coalition is returned, the tax cuts and investment allowances to businesses with turnover of under $10 million will help.


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